

STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 19-1932-TF

Tariff filing of Green Mountain Power Corporation for approval of its initial annual base rate of 2.92% to take effect on bills rendered on or after October 1, 2019	
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Order entered: 08/29/2019

ORDER SETTING INITIAL BASE RATES

I. INTRODUCTION

In today's Order, the Vermont Public Utility Commission ("Commission") rules on a request filed by Green Mountain Power Corporation ("GMP" or the "Company") to increase its base rates by 2.92%. GMP's request is an "initial base rate filing" made pursuant to the multi-year regulation plan (the "Plan") that the Commission approved in case number 18-1633-PET.¹ The Plan sets many of the costs that go into calculating GMP's base rates. For example, the Plan limits the total amount of investment that GMP may recover in rates for the next three years. The majority of GMP's operations and management costs are fixed for ratemaking purposes for the three-year term of the Plan under the requirements of the so-called "O&M Platform," which was ordered by the Commission as part of its approval of GMP's merger with Central Vermont Public Service Corporation in Docket 7770.² The primary purpose of this proceeding is to review GMP's three-year forecast of the costs, such as power costs, that are not fixed in the Plan. These costs are used to calculate GMP's base rates, which will be updated annually for the term of the Plan.

In addition to the proposed increase to GMP's base rates, several cost-recovery mechanisms that were approved in case number 18-1633-PET will take effect on October 1, 2019. GMP will be collecting surcharges on customers' bills to recover costs associated with major storm damage and tree trimming necessitated by the arrival of the invasive emerald ash borer. Also, a temporary bill credit returning excess accumulated deferred income taxes that was

¹ *Petition of Green Mountain Power Corp.*, Case No. 18-1633-PET, Order of 5/24/2019.

² *Amended Joint Petition of Central Vermont Public Service Corp.*, Docket 7770, Order of 6/15/2012.

approved in GMP's last rate case will expire on October 1, 2019.³ While these changes are not under review in this proceeding, the Commission recognizes that the actual increase in energy bills experienced by ratepayers on October 1, 2019, will be greater than 2.92%. The Commission acknowledges that these increases will be a burden for all customers, particularly residential customers on fixed incomes and businesses that use large amounts of energy. The Commission has reviewed the filings in this case with great care to ensure that no unjustified costs are included in GMP's base rates.

The Department of Public Service (the "Department") reviewed GMP's initial base rate filing for sixty days. During that time, it conducted informal discovery and engaged the services of an outside consultant to review GMP's forecasts and calculations. The Department recommended several changes to GMP's forecasted cost of service that would reduce GMP's rate increase to 2.67%.

We have reviewed the Department's recommendations and GMP's response and conclude that GMP's cost of service should be reduced to reflect some of the Department's recommended adjustments. Accordingly, GMP is directed to file revised tariffs that reflect the adjustments discussed in this Order.

II. PROCEDURAL HISTORY

On May 24, 2019, the Commission approved the Plan. The Plan called for GMP to file its initial base rate filing in early June.

On June 13, 2019, GMP filed its initial base rate filing. GMP requested a 2.92% increase in its base rates.

On August 7, 2019, the Department recommended reductions to GMP's estimated power supply expenses, property taxes, and return on equity. The Department recommended that the Commission approve a 2.43% increase in GMP's base rates.

On August 14, 2019, GMP responded to the Department's recommendation. GMP disagreed with the Department's proposed reductions and requested that the Commission approve a 2.92% increase in base rates.

On August 23, 2019, GMP filed additional comments.

³ *Tariff Filing of Green Mountain Power Corp.*, Case No. 18-0974-TF, Order of 12/21/2018 at 1.

On August 23, 2019, the Department replied to GMP's response. The Department stated that it had recalculated GMP's rate need based on the Department's proposed reductions and recommended that the Commission approve a 2.67% increase in GMP's base rates.

III. PUBLIC COMMENTS

The Commission received ten public comments about GMP's initial base rate filing. Nine of the comments were filed by residential customers and one comment was filed by the Vermont Agency of Commerce and Community Development on behalf of "manufacturers and other large energy users."

Several residential customers commented on the hardship caused by rising rates. They stated that GMP's rates were increasing more than the 2.92% indicated in the customer notice and that it was difficult to ascertain the exact magnitude of GMP's rate increase. One customer suggested that the Commission phase in the rate increases, particularly in light of the expiration of the bill credit that was approved in GMP's last rate case. Other residential customers commented that compensation for their net-metering systems was not keeping pace with GMP's rate increases.

The Agency of Commerce and Community Development (the "Agency") commented on the cumulative effect of this rate increase, GMP's previous rate increases, and the various surcharges like the Major Storm Adjustor and the Emerald Ash Borer Adjustor. The Agency stated that the proposed rate increase is "the latest in a series of price disadvantages borne by Vermont employers." The Agency also stated that it is difficult to ascertain the exact magnitude of these rate increases based on GMP's customer notice. The Agency recommended that the Commission investigate several specific issues like GMP's investments in hydroelectric facilities and digestors, tree trimming and storm costs, the use of renewable energy credits, and whether GMP has taken appropriate cost-reduction measures.

IV. DISCUSSION

A. Power Supply Costs

1. Regional Network Service Forecast

In its initial base rate filing, GMP projected that Regional Network Service charges would be \$123/kW-year for the last four months of the rate period. The Department states that on July 16, 2019, the NEPOOL⁴ Reliability Transmission Committees presented an updated forecast of \$120/kW-year for the last four months of the rate period. The Department states that the first 8 months of the rate period are unaffected by the new forecast.

GMP responds that the Commission should not selectively update portions of GMP's power-supply cost forecast that have decreased without looking at other parts of GMP's forecast that have also changed. GMP states that allowing updating of selected items could complicate the review process and lead to more disputes that require Commission resolution. GMP contends that its power supply costs are likely to be greater than forecast because the Company received more net-metering applications than anticipated in July of this year.

Under traditional regulation, a utility may not "amend, supplement, or alter an existing filing or substantially revise the proof in support of" a rate request without permission of the Commission.⁵ The Commission's rules prohibit any party in tariff investigation from amending an existing filing or revising the proof of such filing in order to increase or decrease a pending rate request except under limited circumstances.⁶ The Department argues that the prohibition on updating is not mandated for the Commission's review of GMP's power supply costs in this proceeding because Section 218d(d) of Title 30 permits the Commission to depart from traditional rate-making standards. The Department states that its role is to point out areas where GMP has overstated its power supply costs.

GMP's arguments concerning "updating" are inapposite because the Department's recommendation is not an amendment or revision of an existing filing. The Department's recommendation is its first filing in this proceeding, and it brings to our attention that GMP's forecast of regional network service costs overstates the costs that GMP will likely incur.

⁴ NEPOOL means the "New England Power Pool."

⁵ 30 V.S.A. § 25(a).

⁶ Commission Rule 2.204(G)(2).

GMP contends that the ISO New England forecast of regional network service charges that the Department relies on is “one dimensional” and that charges may be greater than forecast because “other independent information indicates that actual monthly peak loads in the ISO-NE region so far in 2019 have turned out between two and three percent lower than anticipated.”⁷ Nonetheless, the estimate provided by the Department is the most recent published estimate and GMP has not presented a compelling reason to use another estimate.⁸ Therefore, the Commission directs GMP to revise its forecast of regional network service charges as recommended by the Department.

2. Standard Offer Projects

GMP’s power supply cost forecast included costs related to seven standard-offer projects. The Department contends that the cost of these projects should not be included in rates because the projects have not yet received certificates of public good.⁹ The Department argues that these projects are not likely to be commissioned during the rate period. The Department states that the anticipated \$701,285 of power costs from these projects should be reduced to \$357,275 to reflect the market price of power.

GMP opposes these reductions for the same reasons that it opposed changing its forecast of regional network service charges. However, GMP does agree “that projects that have not yet received a Certificate of Public Good tend to face an additional degree of uncertainty, and that there could be some basis for updating the timing of expected power production from those facilities.”¹⁰ However, GMP states that the costs associated with the standard-offer projects are relatively small in comparison to GMP’s overall power supply costs and will likely be offset by

⁷ GMP Response to the Department’s Recommendation at 7.

⁸ The Commission has similarly reduced GMP’s estimates of regional network service charges based on information that became available after the date of GMP’s initial filings in traditional rate cases. *Tariff Filing of Green Mountain Power Corp.*, Case No. 18-0974-TF, Order of 12/21/ 2018 at 23 (“GMP’s initial filing included estimated Regional Network Service costs. The Department recommended, and GMP agreed to, a \$397,682 downward adjustment in GMP’s power costs based on the actual Regional Network Service rate for January 2019 to May 2019, which was established after GMP’s filing.”).

⁹ One of these projects is the Golden Solar Project. The Commission granted a CPG to this project on August 14, 2019, after the Department’s comments were filed. Golden Solar also requested an extension of time, until December 13, 2020, to construct the project. Based on this filing, the Commission concludes that the project is not likely to be commissioned within the rate year, which runs from October 1, 2019, until September 30, 2020.

¹⁰ GMP Response to Department Recommendation at 8.

unanticipated increases in net-metering volume. Therefore, GMP recommends no adjustment to its power supply costs.

The Commission usually disallows costs associated with facilities that are not likely to be in service during the rate period, and GMP has not provided a persuasive reason to do otherwise here.¹¹ The Company's arguments concerning updating are not persuasive for the same reasons stated above. GMP is directed to revise its estimate of the cost of standard-offer projects as recommended by the Department.

3. Renewable Energy Credits

The Department recommends that the Commission reduce GMP's forecast of power supply costs by \$700,000 because GMP will likely receive more revenue from the sale of RECs than previously anticipated. GMP agrees that "recent trends in REC sales are indicative that REC prices for vintages affecting the rate year will be higher than presently reflected in GMP's power supply forecast."¹² However, GMP opposes reducing its power supply costs forecast because there are "likely offsetting changes that are already evident in other power supply costs" such as net-metering costs.¹³

GMP's assertion that there are likely to be offsetting increases to its power supply costs is unpersuasive. The Commission recognizes that a large number of net-metering applications were filed in June of this year. However, it is not clear to what extent those applications will be approved or operational in the rate year. GMP estimated that an additional 5 to 7 MW of net-metering would be operating for "much of the rate year" based on "trends for attrition and how long it takes to bring net-metered projects online."¹⁴ The Commission and Department cannot assess these statements without seeing GMP's supporting calculations. In future years, the Commission would consider revisions to GMP's power supply forecasts based on unanticipated circumstances if the revisions are sufficiently supported, and after opportunity for review and comment by the Department.

¹¹ See e.g., *Petitions of Cent. Vermont Pub. Serv. Corp.*, No. 4496, Order of 12/4/1981 at 32 ("The cost of VELCO facilities is \$362,000. This should be recovered in the update and not in this cost of service because the facilities will not be in service for the period these rates will be in effect.").

¹² GMP Response to Department Recommendation at 10.

¹³ *Id.*

¹⁴ *Id.*

GMP will have an opportunity to revise its forecasts of net-metering in next year's base rate filing. Also, GMP's actual power supply costs will be subject to a true up through the Plan's Power Supply Adjustor. The Commission is not persuaded that the possibility that GMP has underestimated its net-metering costs is a sufficient justification for GMP to maintain a forecast of REC revenues that GMP agrees is inaccurate. GMP is directed to revise its estimate of revenues from REC sales as recommended by the Department.

B. Property Taxes

GMP projects that property tax expense will increase by 4.0% per year for the three years of the Plan. The Department argues that GMP should have assumed a 1.6% annual increase in property taxes instead of 4.0%. The Department contends that GMP's forecast relies on a five-year average that is overly influenced by an 8.7% increase and 4.5% increase in property taxes in years 2015 and 2016. The Department states that these increases were driven by greater than normal plant additions and higher than normal growth in State tax rates in 2014 through 2015. The Department expects less robust growth in GMP's additions to plant and the state non-residential tax rate in 2019 and 2020. For these reasons, the Department contends that GMP's forecast of property taxes for Vermont should be set using an average of three computations: (1) the average growth of the State tax rate in 2018 and 2019, (2) the three-year average of year-over-year growth in tax expense for Vermont property, and (3) the 10-year compound average growth rate of the State property tax rate. The Department also recommended changes to GMP's tax expense for property in other states based on three-year averages of property tax expense or based on the same 1.60% rate used for Vermont.

GMP responds that the Department's recommendation ignores the actual amount that GMP is likely to pay in property taxes over the next three years. GMP argues that the average of historical property taxes actually paid by GMP is the best measure of likely future costs. GMP states that the amount of taxes actually paid increases annually at a rate greater than the State tax rate because utility property tends to increase in value over time at a rate greater than the average property. GMP maintains that using a five-year average is consistent with Commission practice.

The Commission has used five-year and three-year averages to compute expected costs in rate cases in varying contexts.¹⁵ The choice of whether to use a five-year average or some other measure is highly fact-specific, and the “goal [is] to set rates for the future that realistically reflect the costs the Company will incur during the period for which rates are set.”¹⁶ The Department’s proposed method is not likely to realistically reflect the costs that the Company will incur. The Department’s own analysis shows that the compound average growth rate of Vermont’s State tax rate is 1.60%. According to Figure 4 in the Department’s recommendation, actual tax expenses have historically increased by as much as 4.50% when State tax rates increase by 1.50%.¹⁷

However, the Department persuasively notes that these historic increases in tax expense have been driven to some extent by plant additions.¹⁸ Given the Plan’s limitations on investment in new plant and because the State uses the Iowa Curves¹⁹ to assess the value of GMP’s property, we conclude that the rate of increase in GMP’s actual future tax expense will likely be less than in the past. Therefore, the Commission determines that eliminating the outlier years (8.72% and 0.25%) from GMP’s five-year average is more likely to produce a reasonable estimate of the property tax costs that GMP will incur during the rate year. This results in a projected growth rate of 3.2%. We direct GMP to revise its base rate filing accordingly.

C. Return on Equity

The Plan establishes a method for calculating GMP’s allowed return on equity.²⁰ GMP’s current approved return on equity is 9.3%. Under the Plan, this number is adjusted annually using a formula that measures the change in the daily average of Treasury bond yields. In approving the formula, the Commission directed GMP to use “a full quarter as the measurement period” for calculating the daily average yield.²¹

¹⁵ See *Investigation into Petition of Vermont Gas Sys., Inc.*, Case No. 17-1238-INV, Order of 10/26/2017 at 6 (approving the use of a five-year average of expenses for the Maintenance of General Plant category and a three-year average for Vehicles accounts).

¹⁶ *Tariff filing of Green Mountain Power Corp.*, Docket 5428, Order of 1/4/1991 at 12.

¹⁷ Department Recommendation at 7, Figure 4.

¹⁸ *Id.* at 6.

¹⁹ The Iowa Curves are survivor curves developed in a study at the University of Iowa that show standardized patterns of asset retirement.

²⁰ *Petition of Green Mountain Power Corp.*, Case No. 18-1633-PET, Order of 5/24/2019 at 14-16.

²¹ *Id.* at 16.

The Department contends that GMP's calculation of return on equity used a 30-day average to calculate the initial daily average yield and a full quarter for measuring the ending daily average yield. The Department maintains that using the same measurement period for the initial and concluding daily average yield will ensure consistency and symmetry in both setting and adjusting GMP's return on equity. The Department calculates that GMP's return on equity should be 9.06% instead of the 9.16% requested by GMP.

GMP counters that the Department's argument is procedurally improper because GMP filed a revised version of the Plan on June 7, 2019, in case number 18-1633-PET, and this version of the Plan stated that the initial average daily yield would be calculated using a 30-day average. GMP notes that the Department did not object to this methodology or file a request for reconsideration in case number 18-1633-PET.

GMP's argument is not persuasive because the Commission's approval of the Plan specified that the average daily yield should be calculated using a full quarter as the measurement period. The fact that GMP did not file a revised document that complied with the Commission's order and that the Department did not remark on that fact until August 7, 2019, is of no consequence. The Commission did not approve the version of the Plan that GMP submitted on June 7, 2019, in case 18-1633-PET. The standard that applies is the standard approved by the Commission in the final order approving the Plan. GMP is directed to file a revised calculation of its return on equity using a full quarter as the measurement period for the initial average daily yield.

V. CONCLUSION

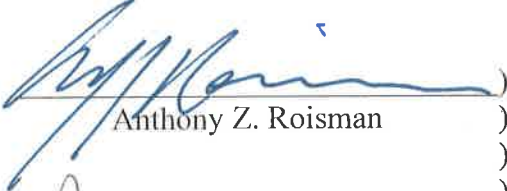
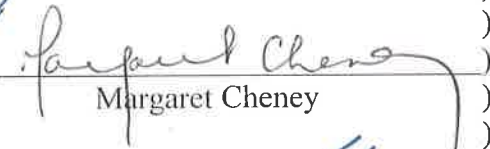

For the reasons stated above, GMP is directed to file a revised calculation of its base rates and tariffs that reflect the adjustments described in this Order.

VI. ORDER

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED by the Vermont Public Utility Commission (“Commission”) that:

1. The initial base rate filing of Green Mountain Power Corporation (“GMP”) is approved, subject to the changes discussed above.
2. Within 14 days of this Order, GMP shall file revised tariffs that are consistent with the discussion above.

Dated at Montpelier, Vermont, this 29th day of August, 2019.

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Anthony Z. Roisman)	PUBLIC UTILITY
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Margaret Cheney)	COMMISSION
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)	
Sarah Hofmann)	OF VERMONT

OFFICE OF THE CLERK

Filed: August 29, 2019

Attest: 
Clerk of the Commission

Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Commission (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: puc.clerk@vermont.gov)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Commission within 30 days. Appeal will not stay the effect of this Order, absent further order by this Commission or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Commission within 28 days of the date of this decision and Order.

PUC Case No. 19-1932-TF - SERVICE LIST

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